

# **NORWALK-LA MIRADA UNIFIED SCHOOL DISTRICT**

Audit Report

## **SCHOOL DISTRICT OF CHOICE: TRANSFERS AND APPEALS PROGRAM**

Chapter 160, Statutes of 1993,  
and Chapter 1262, Statutes of 1994

*July 1, 2000, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

October 2005



**STEVE WESTLY**  
**California State Controller**

October 7, 2005

Ginger Shattuck, Superintendent  
Norwalk-La Mirada Unified School District  
12820 Pioneer Boulevard  
Norwalk, CA 90650-2894

Dear Ms. Shattuck:

The State Controller's Office audited the costs claimed by the Norwalk-La Mirada Unified School District for the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 2000, through June 30, 2002.

The district claimed \$283,000 for the mandated program. Our audit disclosed that the entire amount is unallowable because the district claimed unsupported costs. The State paid the district \$258,122; the district should return the entire amount.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/ams

cc: Maureen Saul, Ph.D.

Assistant Superintendent of Business Services  
Norwalk-La Mirada Unified School District

David Rivera

Director of Fiscal Services  
Norwalk-La Mirada Unified School District

Darline P. Robles, County Superintendent of Schools  
Los Angeles County Office of Education

Scott Hannan, Director

School Fiscal Services Division  
California Department of Education

Arlene Matsuura, Education Fiscal Services Consultant  
School Fiscal Services Division  
California Department of Education

Gerry Shelton, Director

Fiscal and Administrative Services Division  
California Department of Education

Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Norwalk-La Mirada Unified School District for the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was March 17, 2005.

The district claimed \$283,000 for the mandated program. Our audit disclosed that the entire amount is unallowable because the district claimed unsupported costs. The State paid the district \$258,122. The district should return the total amount to the State.

## Background

*Education Code* Sections 48209.1, 48209.7, 48209.10, 48209.13, and 48209.14 (added and amended by Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) require that any school district may elect to accept interdistrict transfers and become a school district of attendance "choice" for pupils from other school districts. They also establish the statutory right of the parent or guardian of a pupil who is prohibited from transferring to appeal this decision to the county board of education.

The choice program requires districts that elect to participate to adopt several nondiscriminatory practices.

- Transfers are to be allowed on a random basis, subject to a numerical limit adopted by either the "sending" district of residence or the "receiving" district of choice, and may be prohibited if they adversely affect either school district's integration program;
- Although districts are not required to establish new programs to accommodate the pupil transfer, the school district of choice cannot prohibit a transfer of a pupil just because the additional cost of educating the pupil would exceed the amount of additional State aid received as a result of the transfer;
- Resident pupils cannot be displaced by a choice transfer;
- When a transfer request is rejected, the district must provide written notification to the parent or guardian stating the reason; and
- Once a transfer is granted, the pupil has the right of continuation to other grade levels.

All school districts are required to collect and report data on the number of requests submitted, transfers granted, and transfers denied.

On April 28, 1995, and May 6, 1996, the Commission on State Mandates (COSM) determined that Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on July 25, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the School District of Choice: Transfers and Appeals Program for the period of July 1, 2000, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

## **Conclusion**

Our audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, the Norwalk-La Mirada Unified School District claimed \$283,000 for costs of the School District of Choice: Transfers and Appeals Program. Our audit disclosed that the entire amount is unallowable.

For fiscal year (FY) 2000-01, the State paid the district \$124,736. Our audit disclosed that all of the costs claimed are unallowable. The district should return the total amount to the State.

For FY 2001-02, the State paid the district \$133,386. Our audit disclosed that all of the costs claimed are unallowable. The district should return the total amount to the State.

**Views of  
Responsible  
Official**

We issued a draft audit report on July 13, 2005. Maureen Saul, Ph.D., Assistant Superintendent, responded by letter dated July 28, 2005 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

**Restricted Use**

This report is solely for the information and use of the Norwalk-La Mirada Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

**Schedule 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
<u>July 1, 2000, through June 30, 2001</u>			
Salaries and benefits	\$ 124,940	\$ —	\$ (124,940)
Materials and supplies	—	—	—
Subtotal	124,940	—	(124,940)
Indirect costs	8,433	—	(8,433)
Total costs	<u>\$ 133,373</u>	—	<u>\$ (133,373)</u>
Less amount paid by the State		(124,736)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (124,736)</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Salaries and benefits	\$ 140,153	\$ —	\$ (140,153)
Materials and supplies	—	—	—
Subtotal	140,153	—	(140,153)
Indirect costs	9,474	—	(9,474)
Total costs	<u>\$ 149,627</u>	—	<u>\$ (149,627)</u>
Less amount paid by the State		(133,386)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (133,386)</u>	
<u>Summary: July 1, 2000, through June 30, 2002</u>			
Salaries and benefits	\$ 265,093	\$ —	\$ (265,093)
Materials and supplies	—	—	—
Subtotal	265,093	—	(265,093)
Indirect costs	17,907	—	(17,907)
Total costs	<u>\$ 283,000</u>	—	<u>\$ (283,000)</u>
Less amount paid by the State		(258,122)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (258,122)</u>	

<sup>1</sup> See the Finding and Recommendation section.

# Finding and Recommendation

## **FINDING— Unallowable salary, benefit, and related indirect costs**

The district claimed \$265,093 in unsupported salaries and benefits for information requests for the audit period. The district also claimed related indirect costs of \$17,907.

The district supported claimed costs with annual declarations of estimated time spent rather than with source documents that validate the actual time spent on mandated activities. The district provided a summary of annual hours for each employee claimed without identifying the date on which activities occurred.

A summary of the audit adjustments to salary, benefit, and related indirect costs follows.

	Fiscal Year		Total
	2000-01	2001-02	
Salaries and benefits	\$ 124,940	\$ 140,153	\$ 265,093
Related indirect costs	8,433	9,474	17,907
Audit adjustment	<u>\$ 133,373</u>	<u>\$ 149,627</u>	<u>\$ 283,000</u>

*Parameters and Guidelines* for this mandate program states that all costs claimed must be traceable to source documents (employee time records, invoices, receipts, purchase orders, contracts, etc.) and/or worksheets that show evidence of, and the validity of, such claimed costs. *Parameters and Guidelines* makes no reference to the use of declarations to support claimed costs.

### Recommendation

We recommend the district establish and implement procedures to ensure that claim costs are supported with source documentation.

### District's Response

#### **Employee Time Records**

The draft audit report eliminates 100% of the claimed costs. The Controller asserts that the reason for the adjustment is that the “district supported claimed costs with annual declarations of estimated time spent rather than with source documents that validate the actual time spent on mandated activities.” The entire basis for the adjustments is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were excessive or unreasonable.

#### Legal Requirements for Claim Preparation

The parameters and guidelines, so far as is relevant to the issues addressed herein, state:

#### “VI. CLAIM PREPARATION

##### 1) Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive

hourly rate and related benefits. The average number of hours devoted to each function may be claimed if supported by a documented time study.

#### “VII. SUPPORTING DATA

For auditing purposes, all costs claimed must be traceable to source documents (e.g., employee time records, invoices, receipts, purchase orders, contracts, etc.) and/or worksheets that show evidence of and the validity of such claimed costs.”

#### Annual Reporting

The Controller asserts that a monthly or annual summary of staff hours spent on the mandated activities is unacceptable. The Controller’s standard is that all mandate and non-mandate daily activities of each employee should be recorded contemporaneously on some sort of daily time sheet. This is a policy preference of the Controller and not supported by the parameters and guidelines or any other legal basis. The Controller insists that staff time be recorded contemporaneously. The fact that the reported staff time is recorded after the activity reported occurred is not a valid objection because the annual reimbursement claims are prepared months after the activity reported. In fact, in every court and tribunal in this nation, people competently testify as to facts that occurred weeks, months and years previously.

#### Estimated Time

The Controller asserts that the District employees reported estimated times rather than actual number of hours spent on the mandated activities. The District has made available to the auditors “source documents” such as “employee time records and/or worksheets” that show “evidence of, and the validity of” the costs claimed. The time reported by the District employees is not an estimate. The amount of time spent on repetitive activities was determined by the number of activities and the average time for each activity.

#### Employee Declarations

The District reported staff time for this mandate using documentation which the Controller characterizes as “employee declarations.” The Controller has, as a matter of policy rather than law, rejected the use of employee declarations because they are not “contemporaneous” documentation and are without “corroborating evidence.” The audit report concludes that since the parameters and guidelines “make no reference to the use of declarations to support claimed costs” the declarations are insufficient documentation. If this “no reference to” standard were pertinent, the Controller is enforcing a double standard. The parameters and guidelines “make no reference to” contemporaneous documentation or corroborating evidence, yet the Controller insists that such a standard must be applied.

The parameters and guidelines do not provide advance notice that declarations (certified employee time records) are unacceptable documentation. These certifications satisfy the parameters and guidelines in that, as employee time records and/or worksheets, they are, themselves, source documents that show evidence of and the validity of the costs claimed.

The Controller is asserting documentation standards which are not stated in the parameters and guidelines and not adopted pursuant to the Administrative Procedure Act. The Commission on State Mandates, which has appellate jurisdiction for Controller audits, does not conduct hearings according to technical rules relating to evidence and witnesses

and allows the admission of all relevant evidence (specifically including declarations) on which responsible persons are accustomed to rely upon the conduct of serious affairs (Title 2, California Code of Regulations, Section 1187.5). The Controller cannot establish a standard by audit practice which exceeds that of the Commission and the courts which have jurisdiction over the audit.

#### SCO's Comment

The fiscal effect of the finding remains unchanged.

We refute the district's argument that "the entire basis for the adjustment is the quantity and quality of the District documentation." Our audit found that employee labor and benefits costs claimed by the Norwalk-La Mirada Unified School District are unsupported because the method the district used to determine time spent did not comply with *Parameters and Guidelines*. *Parameters and Guidelines* requires local entities to track the actual time devoted to each reimbursable function by each employee. The district did not use this methodology in calculating its claimed costs. As described in the finding, we found that the district's method for estimating time was deficient because the district had no documentation to support that the time estimates it used reflected the actual time spent. The district did not provide our auditors with any documentation related to the average time for each repetitive activity as stated in the district's response. Thus, the district neither used an acceptable methodology nor adequately supported its claimed costs.

We do not require that all non-mandate daily activities of each employee "be recorded contemporaneously on some sort of daily time sheet." Furthermore, we are not establishing standards, but rather requiring documentation supporting actual costs incurred.

We agree that the choice transfer statistics are not required for mandated information request activities claimed by the district. Consequently, reference to the choice transfer statistics has been removed from the finding.

**OTHER ISSUES**

The district's response also addressed the following issues. The SCO's comments immediately follow the district's response.

**Statute of  
Limitations**District's Response

The District's FY2000-01 claim was filed on January 8, 2002. Pursuant to Government Code Section 17558.5, this claim is subject to audit only until December 31, 2004. The draft audit report is dated July 13, 2005. Therefore, audit or adjustment of this claim is barred by the statute of limitations.

SCO's Comment

We disagree with the district's assertion that this audit and the related adjustment of the claims are barred by the statute of limitations.

*Government Code* Section 17558.5(a), in effect during the audit period, states that district's reimbursement claim is subject to an audit no later than two years after the end of the calendar year in which the claim is filed or last amended. The FY 2000-01 claim was filed in January 2002. We initiated this audit on October 1, 2004, which is prior to the statutory deadline to commence an audit of December 2004.

**Public Records  
Request**District's Response

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines "source documents" or declares that "declarations are unacceptable documentation."

Government Code section 6253, subdivision (c), requires that state agency which is the subject of the request, within 10 days from receipt of a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

SCO's Comment

The State Controller's Office provided the district with the requested information in a separate letter dated August 11, 2005.

## **Audit Authority to Question Claimed Costs**

### District's Response

The State Controller has applied a standard of general application after the fact that declarations (certified employee time records) are not an acceptable form of documents that show evidence of and the validity of the costs claimed. The District has provided documentation generated in the usual course of business as well as generated for the purpose of claiming mandate reimbursement. All of this documentation was rejected by the Controller. The Controller did not cite any statutory basis for its audit adjustments, other than its general authority to audit. Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994 do not provide any authority for the Controller to eliminate the claimed cost. Nor do Government Code Section 17561 or the Commission regulations (Chapter 2.5, Title 2, California Code of Regulations) provide any authority for the Controller to eliminate the claimed costs. Absent some statutory authorization, another source of authority must be stated by the Controller.

### SCO's Comment

The district is mistaken when it contends that the SCO has no authority to adjust or eliminate claimed costs.

The Objective, Scope, and Methodology section of this report previously referenced *Government Code* Section 17558.5. The Objective, Scope, and Methodology section has been updated to also reference *Government Code* Sections 12410 and 17561. Section 17558.5 states that a reimbursement claim for actual costs filed by a local government or school district is subject to audit by the SCO. Section 12410 states that the State Controller shall superintend the fiscal concerns of the state and audit the disbursement of any state money, for correctness, legality, and for sufficient provisions for payment. Section 17561 states that the Controller may audit the records of any local agency or school district to verify the actual amount of mandated costs, may reduce any claim that the Controller determines is excessive or unreasonable, and shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years.

**Attachment—  
District's Response to  
Draft Audit Report**

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# NORWALK-LA MIRADA Unified School District

*Commitment to Students  
Through Excellence in Education*

## BOARD OF EDUCATION

Richard LeGaspi  
*President*

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*Vice President*

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*Member*

Karen L. Morrison  
*Member*

Ana Valencia  
*Member*

Ginger Shattuck  
*Superintendent*

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

July 28, 2005

Mr. Jim L. Spano, Chief  
Compliance Audits Bureau  
California State Controller  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Norwalk-La Mirada Unified School District  
Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994  
School District of Choice: Transfers and Appeals  
Fiscal Years 2000-01 and 2001-2002

Dear Mr. Spano:

This letter is the response of Norwalk-La Mirada Unified School District to the letter of Vincent P. Brown dated July 13, 2005, and received by the District on July 21, 2005, which enclosed a draft copy of your audit report of the District's School District of Choice: Transfers and Appeals Program annual reimbursement claims, for the period of July 1, 2000 through June 30, 2002.

### **Employee Time Records**

The draft audit report eliminates 100% of the claimed costs. The Controller asserts that the reason for the adjustment is that the "district supported claimed costs with annual declarations of estimated time spent rather than with source documents that validate the actual time spent on mandated activities." The entire basis for the adjustments is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were excessive or unreasonable.

### Legal Requirements for Claim Preparation

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Employee Declarations

The District reported staff time for this mandate using documentation which the Controller characterizes as “employee declarations.” The Controller has, as a matter of policy rather than law, rejected the use of employee declarations because they are not “contemporaneous” documentation and are without “corroborating evidence.” The audit

report concludes that since the parameters and guidelines “makes no reference to the use of declarations to support claimed costs” the declarations are insufficient documentation. If this “no reference to” standard were pertinent, then the Controller is enforcing a double standard. The parameters and guidelines “make no reference to” contemporaneous documentation or corroborating evidence, yet the Controller insists that such a standard must be applied.

The parameters and guidelines do not provide advance notice that declarations (certified employee time records) are unacceptable documentation. These certifications satisfy the parameters and guidelines in that, as employee time records and/or worksheets, they are, themselves, source documents that show evidence of and the validity of the costs claimed.

The Controller is asserting documentation standards which are not stated in the parameters and guidelines and not adopted pursuant to the Administrative Procedure Act. The Commission on State Mandates, which has appellate jurisdiction for Controller audits, does not conduct hearings according to technical rules relating to evidence and witnesses and allows the admission of all relevant evidence (specifically including declarations) on which responsible persons are accustomed to rely upon the conduct of serious affairs (Title 2, California Code of Regulations, Section 1187.5). The Controller cannot establish a standard by audit practice which exceeds that of the Commission and the courts which have jurisdiction over the audit.

### **Choice Transfer Statistics**

The Controller notes that the District did not report school district of choice transfer statistics. The District did not claim any costs related to choice transfers. The District only claimed costs for the mandated information requests activities. The transfer statistics are not required for this cost component.

### **Statute of Limitations**

The District's FY2000-01 claim was filed on January 8, 2002. Pursuant to Government Code Section 17558.5, this claim is subject to audit only until December 31, 2004. The draft audit report is dated July 13, 2005. Therefore, audit or adjustment of this claim is barred by the statute of limitations.

### **Public Records Request**

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines “source documents” or declares that “declarations are unacceptable documentation.”

Government Code section 6253, subdivision (c), requires the state agency which is the

subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

• • •

The State Controller has applied a standard of general application after the fact that declarations (certified employee time records) are not an acceptable form of documents that show evidence of and the validity of the costs claimed. The District has provided documentation generated in the usual course of business as well as generated for the purpose of claiming mandate reimbursement. All of this documentation was rejected by the Controller. The Controller did not cite any statutory basis for its audit adjustments, other than its general authority to audit. Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994 do not provide any authority for the Controller to eliminate the claimed cost. Nor do Government Code Section 17561 or the Commission regulations (Chapter 2.5, Title 2, California Code of Regulations) provide any authority for the Controller to eliminate the claimed costs. Absent some statutory authorization, another source of authority must be stated by the Controller.

The Norwalk-La Mirada Unified School District requests that the draft audit report be corrected as to the facts and the law prior to its final issuance.

Sincerely,



Maureen Saul, PHD, Assistant Superintendent  
Norwalk-La Mirada Unified School District

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**